

House File 631 - Introduced

HOUSE FILE 631

BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO HSB 234)

A BILL FOR

1 An Act providing for the creation of first-time homebuyer
2 savings accounts in Iowa, including related individual
3 income tax exemptions, making penalties applicable, and
4 including effective date and applicability provisions.
5 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

1 Section 1. NEW SECTION. **541B.1 Short title.**

2 This chapter may be cited as the "*Iowa First-time Homebuyer*
3 *Savings Account Act*".

4 Sec. 2. NEW SECTION. **541B.2 Definitions.**

5 As used in this chapter, unless the context otherwise
6 requires:

7 1. "*Account holder*" means a first-time homebuyer who is a
8 resident of this state and who establishes, either individually
9 or jointly with the resident's spouse who is also a first-time
10 homebuyer, a first-time homebuyer savings account. A person
11 ceases to be an account holder following the purchase of a
12 principal residence after the establishment of a first-time
13 homebuyer savings account.

14 2. "*Business day*" means a day other than a Saturday, Sunday,
15 or federal holiday.

16 3. "*Eligible costs*" means the down payment and allowable
17 closing costs for the purchase of a principal residence in Iowa
18 which principal residence is purchased after the establishment
19 of the first-time homebuyer savings account.

20 4. "*First-time homebuyer*" means an individual who has never
21 owned or purchased under contract for deed, either individually
22 or jointly, a single-family, owner-occupied residence,
23 including but not limited to a manufactured or mobile home that
24 is assessed and taxed as real estate or taxed under chapter
25 435 or taxed under other similar law of another state, or a
26 condominium unit.

27 5. "*First-time homebuyer savings account*" means an account
28 established with a state or federally chartered bank, savings
29 and loan association, credit union, or trust company in this
30 state to finance the purchase of a principal residence in this
31 state.

32 6. "*Principal residence*" means a single-family,
33 owner-occupied residence in the state that will be the
34 principal place of residence of the account holder, whether
35 owned or purchased under contract for deed by the account

1 holder, individually or jointly. "*Principal residence*" includes
2 but is not limited to a manufactured home or mobile home that
3 is assessed and taxed as real estate or taxed under chapter
4 435, and a condominium unit.

5 7. "*Resident*" means the same as defined in section 422.4.

6 Sec. 3. NEW SECTION. 541B.3 First-time homebuyer savings
7 account.

8 1. *Establishment.*

9 a. A first-time homebuyer who is a resident of this
10 state may establish, either individually or jointly with
11 the resident's spouse who is also a first-time homebuyer, a
12 first-time homebuyer savings account to finance the purchase
13 of a principal residence. Married taxpayers electing to file
14 separate tax returns or separately on a combined tax return
15 shall not establish or maintain a joint first-time homebuyer
16 savings account.

17 b. The account holder who establishes the first-time
18 homebuyer savings account, individually or jointly, is the
19 owner and administrator of the account.

20 c. A first-time homebuyer savings account shall be an
21 interest-bearing savings account.

22 d. A financial institution shall not be responsible for
23 the use or application of funds within a first-time homebuyer
24 savings account solely because the account is held at that
25 financial institution.

26 2. *Use and administration by account holder.*

27 a. The account holder shall use the money in the first-time
28 homebuyer savings account for eligible costs related to the
29 purchase of a principal residence within ten years following
30 the year in which the account is first established.

31 b. An account holder shall not contribute to a first-time
32 homebuyer savings account for a period exceeding ten years.

33 c. There is no limitation on the amount of contributions
34 that may be made to or retained in a first-time homebuyer
35 savings account.

1 *d.* The account holder shall not use funds held in a
2 first-time homebuyer savings account to pay expenses, if any,
3 of administering the account, other than to the financial
4 institution where the account is held for expenses or costs
5 related to maintaining the account.

6 *e.* Documentation regarding the segregation of funds in
7 a first-time homebuyer savings account from other funds and
8 documentation regarding eligible costs for the purchase of a
9 principal residence shall be maintained by the account holder.
10 The burden of proving that a withdrawal from a first-time
11 homebuyer savings account was made for eligible costs is upon
12 the account holder.

13 *f.* Within thirty days of being furnished proof of death
14 of the account holder, the financial institution where
15 the first-time homebuyer savings account is held shall
16 distribute any amount remaining in the first-time homebuyer
17 savings account to the estate of the account holder or to a
18 transfer on death or pay on death beneficiary of the account
19 properly designated by the account holder with the financial
20 institution. A financial institution shall not be held
21 liable by an account holder or the director of revenue for the
22 payment of tax or for any other claim relating to distributions
23 or withdrawals from a first-time homebuyer savings account
24 pursuant to this section.

25 *g.* The account holder shall file reports with the department
26 of revenue as reasonably required by the department of revenue.

27 *h.* The account holder is required to remit the withdrawal
28 penalty in section 422.7, subsection 57, paragraph "c", if
29 assessed, to the department of revenue in the same manner as
30 provided in section 422.16, subsection 2.

31 3. *Penalties.* A person who knowingly prepares or causes to
32 be prepared a false claim, statement, or billing to justify the
33 withdrawal of money from a first-time homebuyer savings account
34 is guilty of a serious misdemeanor for each violation.

35 Sec. 4. NEW SECTION. 541B.4 **Tax considerations.**

1 The state income tax treatment of a first-time homebuyer
2 savings account shall be as provided in section 422.7,
3 subsection 57.

4 Sec. 5. NEW SECTION. 541B.5 Rules.

5 The director of revenue shall adopt rules to implement and
6 administer this chapter.

7 Sec. 6. Section 422.7, Code 2015, is amended by adding the
8 following new subsection:

9 NEW SUBSECTION. 57. a. Subtract the amount of
10 contributions made by an account holder to the account holder's
11 first-time homebuyer savings account during the tax year, not
12 to exceed three thousand dollars per individual per tax year,
13 or six thousand dollars per tax year for a married couple who
14 have a joint first-time homebuyer savings account and file a
15 joint return. An amount of contributions made during a tax
16 year in excess of three thousand dollars, or six thousand
17 dollars, as applicable, may be subtracted by an account holder
18 in a subsequent tax year, provided the total exemption under
19 this paragraph for the subsequent tax year does not exceed
20 three thousand dollars, or six thousand dollars, as applicable.
21 This paragraph shall not apply to an account holder more
22 than ten years after the account holder first establishes a
23 first-time homebuyer savings account.

24 b. Subtract, to the extent included, income from interest
25 and earnings received from an account holder's first-time
26 homebuyer savings account. This paragraph "b" shall not apply
27 to any interest and earnings received by an account holder more
28 than ten years after the account holder first establishes a
29 first-time homebuyer savings account.

30 c. (1) Add, to the extent previously subtracted under
31 paragraph "a", the amount resulting from a withdrawal made from
32 a first-time homebuyer savings account for purposes other than
33 the payment of eligible costs of the account holder. If the
34 withdrawal is made on a day other than the last business day
35 of the calendar year, such withdrawal shall also be assessed a

1 penalty in an amount equal to ten percent of the amount of the
2 withdrawal. The penalty shall not apply to withdrawals made on
3 account of the death of the account holder.

4 (2) For purposes of this paragraph "c", any amount remaining
5 in a first-time homebuyer savings account of an account holder
6 on the day after the purchase of a principal residence or the
7 last business day of the tenth calendar year following the
8 calendar year in which the account holder first establishes a
9 first-time homebuyer savings account, whichever occurs first,
10 shall be considered a withdrawal under subparagraph (1).

11 (3) For purposes of this paragraph "c", the following shall
12 not be considered a withdrawal under subparagraph (1):

13 (a) Any amount transferred between different first-time
14 homebuyer savings accounts of the same account holder by a
15 person other than the account holder.

16 (b) Any amounts withdrawn or otherwise transferred from a
17 first-time homebuyer savings account pursuant to an order in
18 bankruptcy.

19 d. For purposes of this subsection, "account holder",
20 "business day", "eligible costs", and "first-time homebuyer
21 savings account" all mean the same as defined in section 541B.2.

22 Sec. 7. EFFECTIVE DATE. This Act takes effect January 1,
23 2016.

24 Sec. 8. APPLICABILITY. This Act applies to tax years
25 beginning on or after January 1, 2016.

26 EXPLANATION

27 The inclusion of this explanation does not constitute agreement with
28 the explanation's substance by the members of the general assembly.

29 This bill allows first-time homebuyers who are residents
30 of Iowa to establish a first-time homebuyer savings account
31 (account) with a state or federally chartered bank, savings and
32 loan association, credit union, or trust company in this state
33 to finance the purchase of a principal residence in this state.
34 "First-time homebuyer" and "principal residence" are defined in
35 the bill. The account is required to be an interest-bearing

1 savings account. The account may be established individually
2 or jointly with the resident's spouse. However, married
3 taxpayers electing to file separate tax returns or separately
4 on a combined tax return shall not establish or maintain a
5 joint account.

6 There is no limitation on the amount of contributions that
7 may be made to or retained in a first-time homebuyer savings
8 account. An account holder is required to use the funds in
9 an account for eligible costs related to the purchase of a
10 principal residence within 10 years following the year in which
11 the account is first established.

12 "Eligible costs" are defined in the bill and include the down
13 payment and allowable closing costs of a principal residence
14 that was purchased after the establishment of the account. If
15 the account holder withdraws funds for any purpose other than
16 the payment of eligible costs, the account holder is subject
17 to a penalty equal to 10 percent of the withdrawal, unless the
18 withdrawal occurs on the last business day of the calendar year
19 or was because of the death of the account holder. The penalty
20 amounts are required to be remitted by the account holder to
21 the department of revenue in the same manner as Code section
22 422.16(2), relating to the withholding of income tax. A person
23 ceases to be an account holder following the purchase of a
24 principal residence after the establishment of an account.

25 Accounts are required to be administered by the account
26 holder. The bill prohibits the account holder from using
27 account funds to pay administrative expenses of the account
28 other than to the financial institution where the account is
29 held for expenses or costs related to maintaining the account.
30 Documentation regarding the segregation of funds in the account
31 from other funds and documentation regarding eligible costs
32 shall be maintained by the account holder. The bill also
33 requires the account holder to file reports as required by the
34 department of revenue. Within 30 days of being furnished proof
35 of death of the account holder, the financial institution where

1 the account is held shall distribute the funds to the estate
2 of the account holder or to a transfer on death or pay on death
3 beneficiary properly designated by the account holder. The
4 bill provides that a financial institution shall not be held
5 liable to an account holder or the director of revenue for the
6 payment of tax or any other claim relating to distributions or
7 withdrawals from an account.

8 The bill provides for two individual income tax incentives
9 relating to first-time homebuyer savings accounts. First,
10 an account holder is allowed to subtract from the individual
11 income tax the amount of contributions made during the year
12 to the account holder's account, not to exceed \$3,000 per
13 individual, or \$6,000 for a married couple with a joint account
14 and filing a joint income tax return. If the account holder
15 contributes more than that amount, the excess may be subtracted
16 in a subsequent tax year provided the total exemption in any
17 one tax year does not exceed \$3,000 or \$6,000, as applicable.
18 Second, the bill exempts any interest or earnings received from
19 an account holder's account. Both the contribution exemption
20 and interest exemption only apply for the first 10 years after
21 the account holder establishes an account.

22 The bill requires an account holder to add to net income the
23 amount of withdrawal from an account that was made for purposes
24 other than eligible costs of the account holder to the extent
25 it was previously subtracted as a contribution. Any amount
26 remaining in an account on the day after an account holder
27 purchases a principal residence or on the last business day of
28 the 10th calendar year following the calendar year the account
29 holder first establishes an account, whichever occurs first,
30 shall be considered a withdrawal that must be added to net
31 income to the extent it was previously subtracted. However,
32 amounts transferred between different accounts of the same
33 account holder by a person other than the account holder or
34 amounts withdrawn pursuant to an order in bankruptcy shall not
35 be considered withdrawals that must be added to net income.

1 The bill makes it a serious misdemeanor to knowingly prepare
2 or cause to be prepared a false claim, statement, or billing
3 to justify the withdrawal of money from a first-time homebuyer
4 savings account. A serious misdemeanor is punishable by
5 confinement for no more than one year and a fine of at least
6 \$315 but not more than \$1,875.

7 The bill requires the director of revenue to adopt rules to
8 implement and administer the bill.

9 The bill takes effect January 1, 2016, and applies to tax
10 years beginning on or after that date.